

# Drug Intelligence Brief



DRUG ENFORCEMENT ADMINISTRATION  
INTELLIGENCE DIVISION

April 2000

## PANAMA—COUNTRY BRIEF



DEA Office Responsible Panama Country Office

Population 2,800,000

Area 75,517 square kilometers  
(29,762 square miles)

Capital Panama City

Type of Government Constitutional Republic

### Panamanian Top Government Officials

President Mireya Moscoso

National Security Advisor Pablo Quintero Luna

Attorney General Jose Antonio Sossa-R.

Minister of Government  
and Justice Winston Spadafora

Minister of Foreign Affairs Jose Miguel Aleman

Minister of Economy  
and Finance Victor Juliao

## HISTORICAL BACKGROUND

Following the removal of the military regime of Manuel Antonio Noriega-Morena in December 1989 by U.S. troops, the succeeding administration of democratically elected Guillermo Endara-Galimany experienced severe economic problems and continued political instability. Economic problems, coup attempts, and public resentment over the Endara Administration's perceived dependence on the United States prevented Endara from having a successful presidency. Elections held among several candidates in May 1994, resulted in a narrow victory for Democratic Revolutionary Party (PRD) candidate, Ernesto Perez-Balladares, who received only one third of the total votes cast in the election. As a result of his extremely limited mandate, President Perez-Balladares had to obtain the support and cooperation of other political parties to rule the country.

The PRD under President Perez-Balladares was unable to stabilize the internal security situation in Panama. Drug trafficking, corruption, and the use of Panama as a major transportation hub for both drugs

and money by the Colombian drug cartels continued throughout the Perez Administration. The PRD lost the May 1999 presidential election to opposition candidate Mireya Moscoso. Moscoso's election improved the possibility of bilateral cooperation between Panama and the U.S. Government because the PRD had billed itself as more nationalistic and anti-United States.

In addition to the election of Moscoso as Panama's president, 1999 witnessed two other important events likely to change Panama's development. The first was the incursion into Panamanian territory by Colombian guerrillas and paramilitary groups, and the second was the return of the Panama Canal by the U.S. Government to Panamanian control. The simultaneous departure by U.S. troops from the Canal Zone and the entry of warring Colombian factions along Panama's South American Border left Panama with an increasingly tenuous security situation and many Panamanians concerned about the future.

## OVERVIEW

Panama is the most strategically located country in the Western Hemisphere for drug trafficking and other criminal activities, making it a crossroad for international crime. Panama's location between South America and North America, with its long coastlines, its border with Colombia, and the Panama Canal make the country a key staging point for drug shipments originating in Colombia for further shipment north. Panama's 225-kilometer land border with Colombia, its 2,870 kilometers of Caribbean and Pacific coastline, and over 1,480 islands make for an almost impossible task of policing its borders. Additional factors making Panama attractive to drug traffickers are weak Panamanian law enforcement and public security institutions, its large and sophisticated international banking sector, the Colon Free Zone (CFZ), and cargo container port facilities on both ends of the Panama Canal. Panama also is an international commercial air hub, with flights to the Americas, the Caribbean, Asia, and Europe. Panama's airspace is uncontrolled, and there are several smaller domestic airports in addition to the Tocumen International Airport in Panama City.

Panama continues to be a major financial and commercial center, ideally positioned for illicit financial transactions and drug smuggling. Money laundering remains the most serious drug-related problem in Panama. Panama's large and sophisticated banking and trading institutions, its U.S. dollar-based economy, and its proximity to Colombia make it an attractive target for money laundering.

## CULTIVATION AND PRODUCTION

Aircraft of the Panamanian National Air Service, in conjunction with U.S. Department of State THRUSH aircraft, destroyed 125 hectares of coca cultivation in the southern Darien Region along the Colombian Border in 1996. Reconnaissance conducted on January 26, 1999, confirmed that the coca cultivators have not made any effort to replant fields.

Cannabis is cultivated on a limited scale in the Las Perlas Islands, where marijuana is produced primarily for domestic consumption. Seizures of domestically grown cannabis over the last several years have been insignificant, supporting the domestic consumption theory. In September, 1998, the SAN undertook an aerial eradication of 6.6 hectares of cannabis plants on San Miguel and San Pedro Islands in the Las Perlas Islands group.

The incursion into the Darien Region by Colombian guerrillas and paramilitary groups has resulted in the presence of cocaine hydrochloride processing laboratories along the Panamanian-Colombian Border. As of the end of 1999, there was little information regarding the number or scale of Colombian cocaine processing laboratories in Panama.

## CHEMICALS/PROCESSING

Panama is not a major producer or significant consumer of essential chemicals. Law 13 of 1994 established penalties for the illicit manufacture, use, and transport of essential and precursor chemicals. In 1995, officials examined over a dozen chemical companies based on U.S. Government information, but charged none with violations. During the same year, Panama and Colombia agreed to impede the diversion of precursor chemicals and essential substances. In 1999, the National Commission for the Study and Prevention of Drug Related Crimes (CONAPRED) attempted to establish a chemical control policy to coordinate the efforts of Panamanian law enforcement entities with the needs of the private sector. The Technical Judicial Police (PTJ) acted as the lead agency for conducting investigations and tracking drug shipments.

Despite government efforts in 1999, Panama still needed to develop legislation, define the roles of government agencies, and control shipments of precursor chemicals without impeding legitimate trade. Panamanian legislation on precursor chemicals remains vague and difficult to interpret and enforce. Panamanian institutions are not equipped to monitor or control traffic in precursor chemicals. A large volume of chemicals for other countries transits the CFZ, and there is growing concern among law enforcement officials that Panama could become a major transshipment point for illegal precursor chemicals. Panama potentially is a very weak link in the world effort to increase precursor chemical control because of its unique location as Colombia's neighbor, possession of the Panama Canal, lax controls on the CFZ, the volume of trade transiting the country, and the weakness of Panamanian law enforcement institutions.

**Drug Seizures/Arrests in Panama 1991 - 1999**

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Cocaine (kilograms)	9,300	9,800	5,680	8,600	5,890	8,600	11,300	11,771	2,576
Heroin (kilograms)	N/A	1	13	7	30	10	33	22	46
Marijuana (kilograms)	9,880	7,330	32,500	10	60	18,120	14,100	16,530	1,558
Significant Drug Arrests	N/A	N/A	N/A	N/A	N/A	N/A	N/A	168	131
Total Drug Arrests	759	517	800	1,163	874	1,252	1,350	1,732	2,161

## DRUG TRAFFICKING TRENDS

Panama is a key hub for the transit of South America-produced cocaine and, increasingly, heroin and precursor chemicals. Drug shipments pass through Panama by land, sea, and air routes. Fishing vessels, cargo ships, and go-fast boats transit Panamanian waters and either continue on to other Central American countries or drop off their cargo in Panama. After cocaine arrives in Panama, traffickers repackage it either for transportation northward along the Pan-American Highway or for sea freight transport. Cocaine entering Panama from air routes is brought in by small planes which enter Panamanian airspace to drop the drugs off in remote, lightly populated areas, such as the San Blas Region along the Caribbean coast. Couriers transport smaller amounts of heroin and cocaine on commercial air flights, particularly to Spain, the Netherlands, Germany, and the United Kingdom.

Panamanian law enforcement agencies seized 2,576 kilograms of cocaine, 1,558 kilograms of marijuana, and 46 kilograms of heroin in 1999. These totals contrast with 11,771 kilograms of cocaine, 16,530 kilograms of marijuana, and 22 kilograms of heroin seized in 1998. Despite the reduction in amounts seized, except for heroin, the drug flow through Panama remains high. The decreased number of

seizures in 1999 were due to changes in drug trafficking patterns from overland to maritime routes and to several multiton cocaine seizures in 1997 and 1998. Heroin seizures increased in 1999, further establishing Panama as a principal link in the route through which drug trafficking organizations funnel Colombian heroin to the United States.

Traditionally, law enforcement officials have focused interdiction assets on containerized cargo arriving from source countries. However, it has become evident in recent years that trafficking organizations are using containers from non-source countries in addition to coastal freighters and fishing vessels for the movement of drugs, chemicals, and currency. With traffickers increasingly using Panama to move drugs via containerized cargo, Panama has become a particularly important transit country.

The CFZ and the Ports of Cristobal and Coco Solo, located at the Atlantic entrance of the canal, are primary targets of interest for counterdrug law enforcement authorities. The Port of Cristobal has containerized cargo facilities that allow it to directly load containers onto the beds of trucks. The Port of Coco Solo supports a container transshipment facility as well as coastal shipping activity. The Port of Balboa, located at the Pacific entrance of the canal, handles containerized cargo, and is an important staging point for drug transshipment operations. During 1999, several containerized shipments of cocaine originating in Panama were intercepted in other transit countries such as Guatemala, and in final destination countries such as Spain, Turkey, Russia, and the Netherlands. The most significant cocaine seizure from maritime cargo occurred on March 2, 1999, when an employee of United Consolidated and Forwarders reported suspicious boxes in a cargo shipment of blue jeans destined for Puerto Castillo, Guatemala. This report led the Panamanian National Police (PNP) to seize 335 kilograms of cocaine.

Seizures indicate that smuggling via large commercial and small private vessels transiting Panamanian ports continues to be the most important drug transshipment method available. Further complicating the challenge to law enforcement officials is the ease with which illegal drugs continue to be temporarily stored in Panama, where they are repackaged and/or concealed with other durable goods for onward shipment.

Smuggling along both the Caribbean and Pacific coasts via go-fast boats continued in 1999. Interdiction efforts have resulted in several significant cocaine seizures from the pursuit of go-fast boats operated by Colombian crews. The most significant maritime seizure in 1999 occurred when Panamanian authorities arrested three suspects and seized 385 kilograms of cocaine and 600 liters of acetic anhydride from two go-fast boats, following a high-speed chase on the Pacific coast, which terminated at Isla Del Rey in the Gulf of Panama.

The overland movement of drugs in commercial shipments through Central America is well documented. Drug traffickers use tractor-trailers to transport large volumes of commercial goods across Central American borders, primarily via the Pan-American Highway. Intelligence and seizure data indicate that Panama continues to be the primary staging area for overland drug transshipment in the region. Tractor-trailers operated by drivers recruited in Guatemala traveled to Panama to pick up loads of cocaine in multihundred-kilogram amounts. The cocaine was secreted in false walls or floors of the trailer or, less frequently, in its fuel tanks.

Improved law enforcement presence at the Costa Rican border crossing at Paso Canoas led to several large seizures and a change in smuggling tactics along the Pan-American Highway in 1998. Instead of risking large shipments in trucks on the Pan-American Highway, trafficking organizations started to move smaller loads in private vehicles through informal border crossings into Costa Rica. Once the cocaine arrived in San Jose, the loads were consolidated into tractor-trailers to be sent north to Guatemala via the Pan-American Highway. However, increased seizures along the Costa Rican–Nicaraguan border during

late 1998 and early 1999, led traffickers to reduce large shipments leaving Costa Rica in 1999, and in many cases to avoid moving cocaine into Costa Rica at all.

The decrease of overland routes for cocaine shipments resulted in an increase in the use of general aviation aircraft to make deliveries of cocaine by airdrop to the Caribbean and Pacific coasts of Panama during 1999. Traffickers exploit the inability of Panamanian authorities to distinguish between legal and illegal flights. Low flying planes either drop their cargo into the water near small craft such as go-fast boats, near beach areas, or on small deserted islands, mostly at night, but also during the day. Cocaine from airdrops in western Panama's Chiriqui and Bocas del Toro Provinces generally is shipped via truck into Costa Rica. Cocaine airdropped in the Gulf of Panama and the Eastern Pacific–Caribbean area is smuggled into the CFZ where it is co-mingled with legitimate cargo and concealed in cargo containers for eventual shipment to the United States or Europe.

Air cargo offers another alternative for traffickers to ship cocaine directly to destination countries, usually in shipments ranging from 50 to 200 kilograms. In August 1999, authorities seized 259 kilograms of cocaine at Tocumen International Airport that was concealed in a heavy piece of machinery destined for Mexico. A smaller seizure of 118 kilograms occurred in July 1999, when the PTJ seized four cardboard boxes, which were in transit from Caracas, Venezuela, to Miami, Florida, via Panama.

Colombian heroin trafficking activities increased in Panama during 1998 and 1999, especially through Panama's Tocumen International Airport to the United States. Some of the heroin exiting Panama's Tocumen International Airport arrives through Panama's regional airports that lack adequate security measures. Several Colombian organizations transport approximately 5 to 10 kilograms of heroin per week through Panama and on to the United States and Europe. Approximately 44 kilograms of Colombian heroin were seized in Panama in 1999. South American heroin is smuggled through Tocumen International Airport via false-bottomed suitcases and internal/external body-carry methods. Heroin couriers arriving at Tocumen International Airport increasingly are switching identification and travel documents on arrival. This strategy allows the couriers to remain in the International Arrival/Departure areas and not clear Immigration or Customs.

## DRUG ABUSE

Public awareness of the dangers of drug abuse is high and is reinforced by an escalating addiction problem. Drug abuse continues to be a growing problem in Panama with cocaine and its derivatives reaching epidemic abuse levels, making Panama the highest abuser country in Central America.

Starting in the mid-1990s, Colombian trafficking organizations began paying their Panamanian associates "in kind" rather than in cash. This change in payment helped to create the current cocaine/crack epidemic in Panama. In order to convert their payment in cocaine to cash, Panamanian middlemen began to distribute cocaine locally and to convert it to crack, thus contributing to the abuse problem. Much of the cocaine paid to local trafficking groups is converted into crack, or *bazuco*, for sale to urban youth and to Kuna Indians. Local studies have shown that Panama has one of the highest rates of cocaine abuse in Central America, and Kuna leaders have expressed concern over the impact of the drug trade on the Kuna society.

Heroin from Colombia continued to appear in significant quantities in 1999, indicating that Colombia-based organizations remain committed to increasing their share of the heroin market. The Government of Panama is concerned that increased heroin trafficking also will result in "payment in kind" arrangements which, in turn, will increase the amount of heroin available for domestic consumption in Panama.

The Ministry of Education initiated a 5-year public awareness campaign in 1994 to reduce the demand for illicit drugs. The program included training for teachers, information programs, anti-drug abuse training programs for youth, school curriculum programs, an anti-smoking program, and support for the National Drug Information Center (CENAID). The Ministry of Education's efforts receive the support of institutions, such as the Catholic Church, the University of Panama, and the Panama Coalition for a Drug-free Community. The Office of the First Lady of Panama has had an active role in promoting drug awareness among youth.

## **MONEY LAUNDERING**

As an international financial and commercial center, Panama's institutions remain vulnerable to money laundering and illicit financial transactions. Key factors that facilitate money laundering include an advanced infrastructure and well-developed financial services sector that offers banking essential to the sophisticated money laundering techniques used by the major drug cartels. In addition, a dollar-based economy and weak controls on cash and commodity imports and exports fuel money laundering practices. No reliable estimates exist on the total amount of money laundering that takes place through Panamanian banks or other financial institutions.

The number of banks in Panama in 1999 was down to 96 from a high of 108 in 1998. The reduction resulted from Ecuador's financial problems in 1999, mergers in Colombia and Panama, and the closing of some regional offices. Despite its relatively small size, US\$6 billion in assets at the end of 1997, and economic reforms throughout the region, Panama's international banking sector continues to serve as a regional financial center. As a matter of policy, the Panamanian Government opposes drug-related money laundering, and has legal and bureaucratic structures to combat it, although the legal requirement that it be tied directly to drug trafficking makes prosecution difficult. In response to political instability, high inflation, tax structures perceived as unreasonable, and often irrational economic policies by political decision-makers in the region, Panama has served as a center for non-narcotics money laundering and tax evasion for many years. Despite economic reforms throughout the region, Panama continues to attract funds.

U.S. and Panamanian definitions of money laundering are clearly at odds. Under Panamanian law, if a merchant demonstrates that transactions include real goods, and payment is at fair market value, he has not engaged in money laundering; thus, willful ignorance of the law is not a crime. From the Panamanian perspective, criminal money laundering takes place only when a person moves cash without a commensurate exchange of goods, and the cash involved results from specific drug transactions. There were no major changes in Panamanian legislative policies concerning the financial sector in 1999.

Business in Panama is very competitive, making business owners reluctant to take actions that might offend customers. In recent years, attorneys involved in the incorporation of new firms have been required to "know your customer." They have not been required to conduct retrospective investigations; therefore, already existing corporations could be used by traffickers. The inability to check offshore references means a complete investigation of beneficial ownership will not take place to the extent law enforcement agencies require. In addition, informal personal reference procedures can short-circuit the process, permitting creation of corporations by individuals who otherwise might not qualify.

There are three major concessionaires for casino and slot machine gambling. There also are automated bingo parlors throughout the country. The regulatory regime, which covers all gaming, was established in 1999, with the assistance of consultants from the United States who have experience in Las Vegas and elsewhere.



All persons arriving in Panama must report currency or liquid assets greater than US\$10,000 on a customs reporting form. There is, however, no consistent checking of the accuracy of such forms. Arriving passengers can deposit funds in a National Bank of Panama office at Tocumen International Airport.

## PRICES

The wholesale price for a kilogram of cocaine in Panama during 1999 ranged from US\$2,000 to US\$2,500. Heroin wholesale prices per kilogram ranged from US\$25,000 to US\$30,000. The wholesale price for a kilogram of marijuana was US\$65.

## COUNTERDRUG ENFORCEMENT

President Moscoso retained Attorney General Jose Sossa, Drug Prosecutor Rosando Miranda, and PTJ Director General Alejandro Moncada Luna in the positions which they held under the previous administration. President Moscoso also retained a large percentage of the rank-and-file members of Panamanian law enforcement agencies. This allowed for a smoother transition between administrations and avoided the confusion of massive replacements.

The Panamanian Government established the (PNP) after abolishing the Panamanian Defense Forces in 1990. The PNP has 13,000 officers. The Police Information and Investigation Directorate (DIIP), the detective branch of the PNP, has been successful in conducting street level criminal investigations, including counterdrug operations. The DIIP is composed of approximately 600 officers.

The PTJ operated under the Public Ministry until January, 1999, when new legislation placed the PTJ under the control of the Panamanian Supreme Court. The PTJ is Panama's equivalent of the FBI and has a small anti-narcotics unit (approximately 80 members) that is responsible for the enforcement of Panamanian narcotics laws. The PTJ is the lead agency for conducting chemical and criminal investigations, including those involving illegal and pharmaceutical drugs. The agency issues chemical handling permits and has the authority to revoke the permits at its discretion. The PTJ has proactively undertaken the task of monitoring chemical shipments imported to, exported from, and transiting Panama. Panamanian companies must request permission from the PTJ to import controlled chemicals. The PTJ has good relations with the chemical industry in Panama and has not been legally challenged when approaching companies for information. In Panama, when the PTJ suspects a company is diverting chemicals, the burden of proof is on the company to prove it is not involved in the diversion. The DEA has a Memorandum of Understanding with the PTJ.

The National Maritime Service (SMN) is responsible for patrolling Panama's waterways. In spite of limited resources and an aging fleet, the SMN is conducting selective operations in Panama's coastal waters. These are designed to project Panama's law enforcement capability at sea. The SMN has 600 personnel variously assigned to the main headquarters, 6 base locations, and to 6 observation posts. The SMN operates 37 patrol craft, of which 54 percent are operational. These craft patrol Panama's 2,870 kilometers of shoreline and over 1,480 islands. The SMN endeavors to maintain three patrol craft in the coastal waters of the Chiriqui Province (Pacific coast) and two patrol craft in the Bocas del Toro (Atlantic/Caribbean coasts) area to enforce economic and environmental laws as well as providing some deterrence to a full range of illegal activities.

The National Aeronautic Service (SAN) is responsible for Panama's air space and conducting aerial patrols. It also provides crop eradication support, aerial intelligence, and reconnaissance support to the

various law enforcement entities of Panama, in addition to humanitarian flights. The SAN has 393 personnel, most of whom are assigned to the main headquarters.

The Panamanian Customs Service functions as a fiscal organization under the Panamanian Treasury Department. Customs enforces contraband laws and collects import duties. Criminal violations involving other matters, when uncovered by Customs, are referred to the PTJ. When merchandise enters Panama, the importer pays an import duty on the merchandise based on information from the accompanying shipping documents. However, Customs does not usually verify if the merchandise matches the shipping documentation.

The primary legislation addressing chemical control is Law Number 13 of July 1994, which is structured after the Organization of American States Model Regulations. The Panamanian law defines precursor chemicals tableting and encapsulating machines as drugs. Panamanian law also may be interpreted to define drugs as contraband, which is under the jurisdiction of Panamanian Customs. Consequently, there has been an ongoing dispute between the PTJ and Panamanian Customs regarding which agency will lead the country's chemical control efforts.

The U.S. Government provides equipment, training, and information to enhance the performance of Panamanian counternarcotics institutions. U.S. and Panamanian law enforcement agencies cooperate in joint investigations, intelligence sharing, interdiction of illegal narcotics, and efforts to suppress money laundering. During 1999, the U.S. Coast Guard and U.S. Navy worked closely with the SMN and SAN during several high-speed chases of Colombian go-fast boats, resulting in numerous seizures, arrests, and aborted drug runs.

The Government of Panama continues to strengthen its laws covering all aspects of drug trafficking from interdiction, asset seizure, and money laundering, to investigations and prosecution of drug related crimes. Further, Panama has established a system for identifying, tracing, freezing, seizing, and forfeiting drug related assets. Presently, existing laws allow for the seizure and forfeiture of real and personal property, including the instruments of crime such as vehicles, boats, and planes used to transport drugs and other property, such as bank accounts and land on which illicit crops are grown.

## **LEGISLATION, TREATIES, CONVENTIONS**

The Panama Canal is overseen by a commission comprised of representatives from both the United States and Panama. The bilateral commission reviews shipping manifests of vessels traveling through the canal for merchandise which contains dangerous materials. If the commission notes that there are prohibited substances on a vessel transiting the canal, the commission requests that the PTJ search the ship and confiscate the dangerous material.

The Governments of Panama and the United States announced, in September 1998, the unsuccessful conclusion of negotiations for the establishment in Panama of a multinational narcotics center, after a Presidential Reelection Referendum was defeated on August 30.

Negotiations for a comprehensive maritime interdiction treaty between the Governments of the United States and Panama concluded in 1997. As of the end of 1999, however, the Panamanian Government still had not signed the treaty.

Despite slow progress of bilateral negotiations between Panama and the United States during the Perez Administration, President Moscoso has expressed a desire to cooperate with the United States and to seek



assistance in drug interdiction and other law enforcement issues. Polls conducted at the end of 1999 indicated wide-scale public support for a continued U.S. presence in Panama, and further indicated a positive climate for future bilateral cooperation between the Governments of Panama and the United States.

## CONCLUSIONS/PROJECTIONS

Panama's role as a transshipment point for narcotics is unique because of the Panama Canal and the CFZ. Within Panama, the CFZ is a port area where a company may import and store merchandise free of taxes. The merchandise may stay there indefinitely, as long as the company holding the merchandise pays the port fees. Commonly, items are brought in and remain there until the company finds a customer. A company or individual may go into the CFZ and buy merchandise and arrange to have it shipped via rented containers from any one of a number of transport companies that operate in the CFZ.

Despite efforts by Panamanian Customs to control the items shipped through the CFZ, the enormous volume of goods and shipping containers that pass through Panama offers trafficking organizations an opportunity to secrete cocaine among items to be shipped, or in the false floors of the containers themselves. Large seizures from containers originating in Panama, with destinations ranging from Spain to Guatemala, indicate the vulnerability of the CFZ to maritime drug trafficking.

Panama experienced both positive and negative developments during 1999 regarding drug enforcement efforts. The incursion of Colombian guerrillas, paramilitary groups, and drug traffickers received widespread press attention in 1999, as Panamanians became increasingly aware of the security dangers facing their country. The public awareness of security issues and the incoming Moscoso Administration improved the prospects of bilateral cooperation between Panama and the United States. The return of the Panama Canal to Panamanian control changed the nature of the relationship between Panama and the United States by ending a contentious issue between the two governments and improving the likelihood that Panamanians will view the United States as an international partner instead of as a colonial power.